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1. Coal Developments (UNCLASSIFIED)

In press conference following Cabinet Meeting of January 24, Federal Minister Erhard announced Federal Government decision submit, by end of month, law which will provide for custom duty of DM 20 per ton of imported bituminous coal, for period starting February 16, 1959 through 1959. Custom duty will be levied on all imports hard coal, except for those from ECSC countries. Duty-free quota of 5.0 million tons is expected to be established for benefit of coastal areas and North Bavarian Industry. Duty-free quota, for which distribution key will have to be established in more detail, is recommended at 34 percent of imports during period 1956-58. (The original proposal of the Government suggested a duty-free quota of only 4.25 million tons based on 50 percent of the average imports 1950-58.)

In statement, Minister Erhard expressed hope that new measure will contribute greatly to relieve coal sales crisis by liquidating stocks. At this point, he indicates, that deducting from 12.9 million tons of coal imported in 1958, duty-free import quota of 4.2 million, measure should result in 8.7 million tons less imports to be replaced by sales from domestic stocks. Minister Erhard further stated Government has chosen this legal step of introducing a customs duty on coal in preference to other means, such as drastic limitation upon imports in general, which would be more serious with respect to trade policy, particularly in view of GATT negotiations now under way. Measures have been discussed with Ruhr coal mining, trade unions, and American diplomats, and decisive factor has been that customs duty for coal would avoid discrimination against any particular supplier of import coal.

Protest demonstration against coal situation called for by IG Bergbau took place as scheduled on January 25 at Bochum. In front of about 70,000 miners, Guterath expressed satisfaction over recent Government measures, however strongly repeated miners' demand for 5-day work week, indicating that meeting was first step in bitter fight toward this goal.

At Bochum demonstration, coal stocks were indicated at 13.5 million tons and loss in production because of free shifts involving 64,000 miners was quoted at 4.2 million tons.

Immediately after announcement of Government measures, series of protest actions was filed against coal tariff. First objections were raised by Hamburg's mayor in teletype message to Chancellor, claiming quota of 4.2 million tons of duty-free import coal would be inadequate to supply North German economy, particularly public utility consumers, with import coal at present prices. Loss in coal shipments should further

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result in serious consequences for shipping companies, for world freight market, and for volume of transshipment and employment at seaports. At press conference January 26, Association of North German Coal Importers protested against customs duty and inadequacy of duty-free quota, emphasizing that members had already canceled import contracts for 5 million tons and that no new contracts had been concluded since late summer. Moreover, new measures had been put forward without consulting importers. Tariff measure is called a "camouflaged embargo", representing interference by Government with legal contracts in way that will strike at German commercial reputation. Consequences pointed out are political damage, countermeasures, restriction on competitiveness of coastal industries, increase in energy cost and decline in employment in port cities.

Association of Gas and Power Plants Corporations in their protest caution against price increases for gas and power, quoting possible increase by 5 Pfennig per cubic meter of gas and 1 Pfennig per kilowatt hour of energy; at press conference, spokesman of public utility plants mentions that large gas and power plants have already threatened to switch from consumption of coal to fuel oil.

Bremen, Hamburg, and Schleswig-Holstein Land Governments have requested Federal Ministry of Economics to increase considerably duty-free quota to assist Northwest German coastal area.

Apart from these protests, discussions took place at Bundestag Political Factions preparing their position at Bundestag Debate of coal crisis on January 29. Only FDP is reported as voting against new tariff measures. Within CDU itself such prominent delegates as former Labor Minister Storch, Hamburg delegate Bucerius, Bremen delegate Mueller-Hermann, are said to have indicated they will vote against Government's coal tariff policy in plenary session, or at least abstain from voting. Altogether, hectic debate is expected.

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**2. New FTA Activities in Federal Economic Ministry (UNCLASSIFIED)**

3-man EEC Commission team (including Mr. M. Margelin, and M. Deniau) arrived in Bonn on January 28. Acting for Commission, this group is trying to formulate new proposals for EEC in accordance with OEEC Council's request to EEC Commission last December. Group called on State Secretary Prof. Dr. Mueller-Armack. EEC Commissioner van der Greeben also was present.

Comment: Prof. Mueller-Armack stated that he hoped problem of customs and quotas would not be over-stimulating, but that it should be kept in mind that European integration is basically a political problem.

**3. Negotiations on F-104 New York Agreement (UNCLASSIFIED)**

Negotiations between Lockheed and Defense Ministry on sale and licensing arrangements for Lockheed F-104 have entered their final phase agreement having been reached on all major points of difference. Present plans of Defense Ministry are to buy total of 90 planes outright from Lockheed and to have about 200 built under license in Western Germany. Negotiations between General Electric and Defense Ministry with respect to construction in Germany of J-79 engines are continuing.

Comment: One of last hurdles to be taken is to obtain final approval of Bundestag Budget Committee where there may be some objections raised, since construction under license in Germany will be more expensive than originally stated, mainly on account of special configurations and special equipment for plane ordered by Defense Ministry. In final analysis, however, Budget Committee will likely approve these arrangements. Some newspapers still speculate that these "unforeseen" price increases may give French another chance to sell their "Mirage III" which allegedly would cost only half price of F-104, (DM 2.7 million as opposed to DM 5.7 million for F-104, according to press reports). Figure quoted as cost of Mirage III by these newspapers, however, undoubtedly does not include fire equipment and other accessories. In reality Mirage III fully equipped would not likely cost appreciably less than F-104.

**4. Bundestag Ratifies Support Agreement for GFY 1957/58 (UNCLASSIFIED)**

On January 22, 1959, Bundestag passed in second and third reading ratification law concerning agreement on payment of support costs to stationing powers under Article III of NATO Treaty for GFY 1957/58. SPD and FDP voted against measure. Agreements provided for support cost payments to U. S., U. K., France, Belgium, Holland, and Denmark totaling DM 1.2 billion. Last installments to respective recipients were paid about twelve months ago. Both Government and Opposition spokesmen criticized delayed presentation to Parliament of ratification legislation.

**5. Additional Foreign Exchange Controls Limited (UNCLASSIFIED)**

Economics Ministry and Federal Bank made further announcements this week clearing away foreign exchange restrictions inconsistent with DM convertibility. Currency prescription regulations forbidding forwarding foreign payments by German insurance companies will continue to apply by German residents to foreign companies